

Dannel P. Malloy

GOVERNOR
STATE OF CONNECTICUT

July 22, 2011

The Honorable Harry Reid
Majority Leader
US Senate
Washington, DC 20510

The Honorable John Boehner
Speaker
US House of Representatives
Washington, DC 20515

The Honorable Mitch McConnell
Minority Leader
US Senate
Washington, DC 20510

The Honorable Nancy Pelosi
Minority Leader
US House of Representatives
Washington, DC 20515

Dear Leader Reid, Leader McConnell, Speaker Boehner, and Leader Pelosi:

I write to urge Congress to immediately increase the federal government's statutory borrowing limit. It is imperative that Congress do so to protect the US economy and the fragile, but ongoing economic recovery. Failure to increase the debt ceiling and fulfill the financial obligations already authorized by Congress would do great harm to this nation. For Connecticut, such a failure would result in a serious disruption to our cash flow, negatively affect our access to the capital markets, and harm our local economy. I recognize the critical importance of reducing the nation's long term debt and commend the ongoing negotiations to achieve this goal. But in the absence of a balanced, bipartisan agreement, I respectfully request that a debt ceiling increase be enacted without delay.

Once you have done so, I encourage you to continue working with the President on an agreement that will reduce the long-term budget deficit. An agreement should address both spending and revenues, promote economic development and competitiveness, and spare our most vulnerable populations. Further, federal cuts must not disproportionately shift the burden of deficit reduction to either state or local governments. These were my principles when I proposed and enacted a balanced budget that addresses Connecticut's budget shortfall without one-time gimmicks or cost-shifts to local governments, that promotes economic development, and that preserves core countercyclical programs assisting Connecticut's most vulnerable populations weather the aftershocks of the Great Recession.

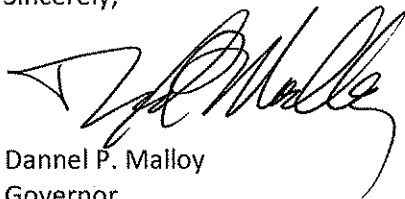
I understand that cuts to mandatory federal spending programs are under consideration. According to press reports, you have targeted \$100 billion in federal savings by eliminating state healthcare provider assessments and revising the federal matching rate for Medicaid and CHIP to reduce federal funding. If enacted, these proposals would represent a substantial cost-shift to the states (according to an estimate by the Center for Budget and Policy Priorities, Connecticut would lose \$456 million over the first ten

years of such a plan) and would damage the Medicaid program, which, of course, is a federal-state partnership to provide vital health care access to low-income and elderly Americans. A better way to reduce overall Medicaid spending would be to enhance the partnership between the federal government and states by better coordinating care to the highest cost populations. For example, Maryland Governor Martin O'Malley has outlined a way to achieve approximately \$100 billion in real federal savings by improving how we serve "dual eligibles." This proposal, laid out in the accompanying white paper, would leverage the outstanding pilot program recently announced by the US Department of Health and Human Services and create a more sustainable approach to generating \$100 billion savings over 10 years.

I'm also concerned about possible reductions in federal funding for graduate medical education. In light of the nation's significant shortfall of physicians, we must encourage bright students to enter this profession. To that end, as part of our State's historic investment in Bioscience at the University of Connecticut Health Center (UCHC), the medical school's enrollment will grow by 30%. However, reduced funding for graduate medical education would not only jeopardize these efforts, but also drive up the delivery costs for the same amount and quality of health care across Connecticut. If reports are true that a sixty per cent cut to graduate medical education is under consideration, such cuts would result in a loss of more than \$42 million to all of the UCHC teaching partners, harm the health of the citizens we serve, and harm the health of our economy. Support for medical education is a critical investment and I urge you reject cuts in this area.

I understand the challenge facing Congress and President Obama in restoring fiscal balance to our long-term federal budget. It is a monumental and imperative task. But it must be done reasonably, in partnership with states, and in a way that accelerates job growth, enhances the economic competitiveness of our nation, and the welfare of our citizens. I urge you to consult governors as you continue negotiations. But, in the meantime, you must increase the debt ceiling without delay to avoid default and the concomitant harm to the United States that would result.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Malloy", with a stylized flourish at the end.

Dannel P. Malloy
Governor

cc: President Barack Obama
Senator Joseph Lieberman
Senator Richard Blumenthal
Representative Rosa DeLauro
Representative John B. Larson
Representative Joseph D. Courtney
Representative Jim Himes
Representative Christopher S. Murphy

Achieving \$100 billion or more in Scoreable Savings Related to Dual Eligibles

FY 2012-FY 2021

Background:

- As reported in the June 27, 2011 Wall Street Journal, in FY 2009 dual eligibles (people who participate in both Medicare and Medicaid) consumed 27% of Medicare's expenditure of \$502 billion (or **\$136 billion in Medicare**), and consumed 39% of Medicaid's expenditure of \$374 billion (or **\$146 billion in Medicaid**, of which 57%, or \$83 billion, represented the federal financial participation [FFP] in Medicaid). **All told, in FY 2009 the federal government alone paid \$219 billion on services for dual eligibles: \$136 billion in Medicare, and \$83 billion in the federal share of Medicaid.**
- In addition, as reported in the same article, of the approximate 959,000 hospital admissions for dual eligibles in 2005, **383,000 admissions were potentially avoidable**. Other avoidable costs for dual eligibles include **unnecessarily long placements in very expensive Medicaid-paid custodial stays in nursing facilities**, which begin as a Medicare post-acute stay for 74% of all initial nursing facility admissions. The amount Medicaid spends on avoidable nursing facility care, in lieu of less expensive and more desirable community-based care, is significant (total Medicaid-paid nursing facility care in FY 2009 was \$51 billion).

Scoreable Approach to Savings:

Here is a way to achieve scoreable savings for the federal government for dual eligibles -- and promote quality, access, and cost-effectiveness.

Risk sharing arrangements. A state now must request a waiver from CMS to participate in a gainsharing arrangement regarding dual eligibles. These waivers, if approved, allow states to receive a portion of any avoided Medicare expenditures, if a state intervention, action, or program generated the Medicare savings. These are upside opportunities to states, to share the reward if avoided Medicare costs for dual eligibles. A more fiscally effective tool would be to make Medicare share the risk (and reward) for avoidable long-term custodial Medicaid-paid nursing facility stays, and to make Medicaid share the risk (and reward) for avoidable Medicare-paid hospitalizations for dual eligibles. These approaches would align the programs' incentives, and save money for the federal government.

Rationale: To avoid the risk of sharing the cost of potentially avoidable hospitalizations for dual eligibles, state Medicaid programs would have an incentive to expand home and community-based services (HCBS). Similarly, Medicare would have an incentive to perform better discharge planning and coordination with state HCBS rebalancing efforts if Medicare shared the risk of potentially avoidable long-term custodial nursing facility stays.

Potential savings: The June 27, 2011 Wall Street Journal Article stated that the average cost to Medicare for each potentially avoidable hospitalization is \$7,846. The total number of avoidable hospitalizations was 959,000. Thus, the total amount Medicare spent on avoidable hospitalizations (in 2005) was \$7.5 billion. This figure is likely to be closer to \$10 billion in FY 11, given the growth in both the number of dual eligibles and the cost to Medicare per hospital admission. Saving just one-third of this amount (net of the cost of interventions to avoid the hospitalizations) by requiring risk-sharing could generate ***\$3 billion/year in savings from hospitalizations***. On the nursing facility side, the amount spent by Medicaid on custodial nursing facility care on dual eligibles in FY 2009 was \$51 billion, of which \$29 billion was FFP. Saving merely one-third of this amount (net of the cost of the HCBS to avoid these nursing facility costs), by requiring risk-sharing, could generate ***\$8 billion/year in savings from nursing facilities***. ***The total net federal savings would be \$11 billion/year, or \$110 billion over ten years.***